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RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000852

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PLEASE PASS TO USTDA-STEIN

E.O. 12958: DECL: 08/21/2017
TAGS: [PGOV](#) [PREL](#) [EPET](#) [EINV](#) [TX](#)
SUBJECT: TURKMENISTAN: A FURTHER STEP TOWARD ENERGY
COOPERATION

REF: A. ASHGABAT 0810

[1](#)B. ASHGABAT 0825

Classified by Charge Richard E. Hoagland for reasons 1.4 (B)
and (D)

[1](#)1. (C) SUMMARY: In a series of recent meetings with U.S. Trade Development Agency (USTDA) contractor Bronek Dutkiewicz, officials in Turkmenistan's hydrocarbon agencies -- and particularly the State Agency for Management and Use of Hydrocarbons (State Agency) -- enthusiastically embraced USTDA's offer of training, and seem eager to learn whatever the United States can teach them that would allow Turkmenistan to make better-informed decisions about how to exploit its hydrocarbon resources. Dutkiewicz found the officials, many of whom lacked training in the international hydrocarbon trade, deeply concerned that they could be taken in by fly-by-night hucksters seeking to exploit for their own benefit Turkmenistan's new status, and very willing to consider almost any options which would allow them to meet the increasingly ambitious volumes of gas that Turkmenistan is contracting to export. END SUMMARY.

[1](#)2. (SBU) USTDA contractor Bronek Dutkiewicz was in Turkmenistan August 5-18 to explore areas of possible cooperation between USTDA and Turkmenistan's hydrocarbon industries (Dutkiewicz was joined August 5-8 by USTDA Regional Director for Europe and Eurasia Dan Stein). During this period, Dutkiewicz met with the country managers of Wintershall, Burren Resources and Dragon Oil, three foreign companies engaged in oil extraction in western Turkmenistan and the Caspian Sea. Dutkiewicz also visited Turkmenistan's Dovletabad gas field in southeastern Turkmenistan, the Turkmenbashi Oil Refinery, and various Turkmenistan government hydrocarbon entities in Ashgabat (refs a and b). In Ashgabat, Dutkiewicz's most productive meetings were with State Agency Executive Director Bayrammyrat Myradov and his staff.

A FOOT IN THE DOOR LEADS TO AN ENTHUSIASTIC WELCOME

13. (C) Although it took Dutkiewicz a week to get a meeting with Myradov -- the embassy finally needed to include Dutkiewicz in a meeting that another visiting delegation had with the State Agency -- Myradov eagerly grasped the possibilities Dutkiewicz was offering when he expressed USTDA's interest in working with Turkmenistan. Myradov asked Dutkiewicz whether, based on what he had seen at the Doveletabad fields, Turkmenistan should look to a development plan for the Amu Darya fields based on production-sharing agreements (PSAs). He seemed enthused by Dutkiewicz's response that, although Turkmenistan needs to look to foreign firms for the massive amounts of investment it will take to achieve new discoveries, upgrade old production facilities and refurbish its transport systems, relying solely on PSAs would give away too much. For this reason, Dutkiewicz suggested that Turkmenistan should consider a mixed system focused on technology acquisition and training.

14. (C) Myradov seemed enthusiastic about Dutkiewicz's suggestion that USTDA could do a feasibility study for a planned expansion of the Seydi Oil Refinery, located in eastern Turkmenistan near the Uzbek border. He became even more excited about Dutkiewicz's offer to train specialists, including geologists, drilling people, negotiators, lawyers, economists, and specialists who can work in the international hydrocarbon business sector, and stated that Turkmenistan welcomes any help so that it can make rational decisions about how to develop Turkmenistan. When Dutkiewicz asked when and how to start, Myradov asked Dutkiewicz, due to depart for the United States that

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evening, to come back early the next morning for a series of exploratory meetings with the State Agency's experts.

15. (C) During his two days of very enthusiastic meetings at the State Agency, Dutkiewicz found the authorities eager for any training the United States is willing to offer, deeply concerned that fly-by-night companies could take advantage of the State Agency's relative inexperience, and eager to consider new options and alternatives to Turkmenistan's traditional Russia-focused hydrocarbon export strategy. Dutkiewicz developed a proposal combining U.S. workshops in Turkmenistan with a study trip to the United States that would allow Turkmenistan officials to meet -- and learn from -- U.S. officials, including from the Minerals Management Service in Louisiana, which is responsible for offshore leasing in the Gulf of Mexico.

16. (C) Dutkiewicz also found out that all PSA bids are vetted not only by the State Agency, but also by a "Gas Development Commission," consisting of the heads of all Turkmenistan's relevant agencies. And, although Turkmenistan is agreeing to PSAs in order to attract foreign investors to the energy sector and especially in the Caspian Sea, Turkmenistan is interested in eventually identifying other potential models. Dutkiewicz also heard indications at the State Agency that Turkmen Geology has bored three exploratory wells in Dovletabad to the Jurassic layer.

FOREIGN GOSSIP: MYRADOV SEEKING TO CHANGE PSA TERMS

17. (C) In meetings with Wintershall, Burren Resources and Dragon Oil, Dutkiewicz also was told:
-- Wintershall is not only working Blocs 11 and 12, which it has taken over from Maersk, but also has initialed a PSA for Bloc 28 (located in an area under dispute with Iran), has an exclusive MOU with the State Agency to explore Blocs 2, 3, 4, 5, and 6, and has offered a bid for an additional bloc on which two other companies have also bid (COMMENT: This may be the Serdar bloc. END COMMENT).
-- Dragon Oil, a long-time player in Turkmenistan, said that, in establishing the State Agency, Myradov had brought

in 14 specialists, including a mixture of lawyers, geologists, marketing experts and experts on commodities exchange, but few had actual international experience. Myradov also had brought back from the State Agency's predecessor, the "Competent Body," the chairmen of the Petronas, Burren and Dragon Oil management commissions. -- Dragon Oil is producing 1.5 billion cubic meters (bcms) of gas per year in peak periods and estimated Petronas is producing 5 bcms of gas in the first phase and could produce 10 bcms in the second phase. -- Dragon Oil also reported that Myradov had sought to change Dragon Oil's PSA terms in order to draw out the cost recovery period and to lower the cap. The Dragon Oil manager suggested that this was because the State Agency is under pressure to show that it is working more oil now.

COMMENT

18. (C) In its effort to diversify its hydrocarbon exports and ensure a steady flow of cash, Turkmenistan has gone on a promises spree to deliver gas to a number of countries. But officials increasingly are beginning to recognize that their go-it-alone strategy of choice can neither deliver all the gas they are contracting, nor meet the overly ambitious targets of the 2030 Hydrocarbons Development plan. In the west, authorities seem to be planning to maintain their PSA policy to continue to lure foreign and technically advanced western firms to work the substantially more complicated Caspian oil fields (the foreign-worked fields are proving substantially more efficient than the fields run by Turkmenneft).

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19. (C) COMMENT CONTINUED: While the highest levels appear increasingly willing to explore the possibility of foreign companies helping to develop the Amu Darya basin in the east, however, they seem to maintain an almost knee-jerk mistrust of major hydrocarbon companies -- including Russian firms -- either because of a concern that the firms have the resources to become too independent, or because of an ingrained bias against the private sector. Given these fears, Turkmenistan may find proposals by lesser-knowns to be more attractive than what the Chevrans and Shells might be willing to offer. We recommend moving forward as quickly as possible with the State Agency training TDA Dutkiewicz has designed. END COMMENT.

HOAGLAND